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WASHINGTON - The Justice Department has blocked the indictment of a Mexican in San Diego because the Central Intelligence Agency advised that he was a key American intelligence source in Central America, according to department officials.

The United States attorney in San Diego, William H. Kennedy, charged Friday that since last November, Justice Department officials have withheld approval to prosecute the man, who is a former chief of Mexico's Directorate of Federal Security. Kennedy said that the American intelligence agency described him as its "most important source in Mexico and Central America." The Mexican is a suspect in an \$8 million stolen car case.

Senior Justice Department officials today confirmed Kennedy's account, including the role of the CIA, but said they were angered by his comments. They said dismissal of Kennedy was under consideration. He was appointed to his post last year by President Reagan.

The officials added that the intelligence agency was also distressed by Kennedy's remarks, made in an interview published Friday in The San Diego Union, because they said he had exposed and jeopardized sensitive international intelligence connections.

Justice Department officials said that the Mexican suspect, Miguel Nassar Ward, started sharing intelligence information with the United States when he became head of the security agency in January 1977.

They said Nassar, who left his post in January, acted in a liaison capacity between the intelligence agency and the Mexican security agency, assuring cooperation in several intelligence-gathering operations in Central America. The officials declined to provide additional details.

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